
Genesee County Drain Commissioner
Division of Water and Waste Services

(a component unit of Genesee County, Michigan)

Financial Report
with Supplemental Information
December 31, 2017

Genesee County Drain Commissioner Division of Water and Waste Services

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Independent Auditor's Report

To the Board of Directors
Genesee County Drain Commissioner
Division of Water and Waste Services

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund, Internal Service Fund, business-type activities, and discretely presented component unit of Genesee County Drain Commissioner Division of Water and Waste Services, a component unit of Genesee County, Michigan (the "Division") as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund, Internal Service Fund, business-type activities, and discretely presented component unit of Genesee County Drain Commissioner Division of Water and Waste Services as of December 31, 2017 and the respective changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Genesee County Drain Commissioner
Division of Water and Waste Services

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, and pension and OPEB system schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Genesee County Drain Commissioner Division of Water and Waste Services' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Genesee County Drain Commissioner Division of Water and Waste Services' December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



June 13, 2018

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis

Genesee County (the "County") established a county agency through the County Improvement Act (Public Act 342). The County designated the Drain Commissioner as the county agency. The county agency created the Division of Water and Waste Services (the "Division") as its vehicle to perform required duties. The Division provides public utility services of water and wastewater treatment in parts of Genesee, Saginaw, Shiawassee, Oakland, Lapeer, and Livingston counties. The Division's mission is to treat and distribute water, and collect and treat wastewater in such a manner that is in compliance with all state and federal regulations and at the lowest possible cost to customers. Additionally, the Genesee County Board of Commissioners designated the Division as the county enforcing agency for soil erosion in Genesee County.

Primary Objectives and Oversight

The primary objectives of the Division are to maintain high-quality services along with residential and commercial water and sewer rates that are fair and cost effective to all concerned. Although not required by law, the Division maintains a yearly budget of income and expenses for all cost centers. The budget is reviewed and approved by an advisory board. Each community that is a customer of the Division has a seat on the advisory board, which meets monthly to provide guidance to the Division.

Responsibilities

The Division is responsible for the administration, operation, maintenance, and construction of infrastructure and treatment facilities for the communities located in Genesee County for the sanitary system and water supply. The Division is divided into four distinct cost centers. These cost centers, which include Interceptor and Treatment, Water, District No. 3, and District No. 7, have been established based upon revenue, responsibility, and definable core functions. In addition, the Division offers construction management and system operation and maintenance services to local communities.

Some of the key administrative and engineering duties of both the sanitary sewer operation and the water department operation include comprehensive system planning, interaction and regulation of development, implementing capital improvement projects, and system budget management. The administration team is responsible for the overall operation of the utility's services, engineering, and soil erosion in Genesee County. It is this department's responsibility to secure, allocate, and monitor funding, personnel, and equipment resources for the Division to ensure safe, reliable, and efficient operation of the utility.

The primary functions of the support services area are to efficiently and uniformly provide support to the various operations departments. These services are grouped into categories as follows: safety, human resources, finance, permits, soil erosion, construction, inspection, and information technology.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The Operation and Maintenance Department - The Operation and Maintenance Department (O&M) has two primary functions: sanitary sewer collection and transportation and water transmission and distribution. It also performs contracted O&M for certain local communities. As part of ensuring that these primary functions are met, O&M routinely performs the following tasks:

- Preventive maintenance on water and sewer infrastructure
- Staking of water and sewer infrastructure (Miss Dig)
- Jetting and televising of sanitary sewers
- Inspection of water and sewer infrastructure
- Investigation of customer complaints (i.e., plugged sewers, high bills, etc.)
- Meter installation, reading, and repairs
- Repair of broken water mains
- Coordination and repair of sanitary sewers and sewer main taps
- Cut and capping of individual water and sewer service leads as needed
- After-hours emergency response as needed
- Training in the operation and maintenance of the water and sewer systems, along with safety and regulatory compliance
- Establishment and oversight of capital improvement projects

Sewage Treatment Facilities - The core function of each sewage treatment facility is to effectively and efficiently treat sewage in compliance with regulations established by their NPDES (National Pollutant Discharge Elimination System) permit. Each facility strives to maintain good working relationships with customers and elected officials of their districts to achieve the goals of accountability, transparency, and credibility. Essential activities to accomplish these goals include the following:

- Efficient facility operation and maintenance
- Analytical support to ensure compliance with discharge limits and industrial pretreatment regulations
- Ongoing training for employees in plant operation, maintenance, safety, and regulatory compliance
- Robust residuals management
- Addition of various treatment chemicals and/or use of other treatment alternatives
- Planning for plant improvements, equipment replacement, and upgrades
- Emergency response planning
- Storage lagoon operation and maintenance
- Adherence to discharge limitations via continual monitoring
- Pollutant minimization
- Operation of an Industrial Pretreatment Program (IPP)

**Genesee County Drain Commissioner
Division of Water and Waste Services**

Management's Discussion and Analysis (Continued)

The sanitary sewer treatment operations are responsible for the handling and treatment of effluent at the three disposal plants under the Division's jurisdiction. These plants are the Linden Facility (District No. 3), the Bird Road Lagoons (District No. 7), and the Anthony Ragnone Treatment Plant (ARTP) (Districts 1, 2, 5, and 6). In addition to serving large portions of Genesee County, the Division has contracts for sewer treatment outside of its jurisdiction with Shiawassee, Lapeer, Saginaw, Oakland, and Livingston counties.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

ARTP provides sewage treatment for the majority of the Division's service area, with District Nos. 3 and 7 providing service for several outlying areas. And while the District Nos. 3 and 7 facilities are two distinctly separate operations, they are combined administratively due to their proximity to one another.

The Division also manages two programs that impact its treatment facilities:

- **Biosolids Disposal** - Each treatment plant is responsible for disposing wastewater treatment plant biosolids in a manner that is considered beneficial reuse, in particular, biosolids application on farmland. ARTP accomplished this goal in 2017 by applying 4,400 dry tons of stabilized biosolids on approximately 2,000 acres of approved fields. In 2017, District No. 3 applied 1,315 dry tons of stabilized biosolids on approximately 1,000 acres of approved fields.
- **Industrial Pretreatment Program** - The Division regulates and monitors industrial and nondomestic dischargers to the wastewater system. The Division reviews applications, issues discharge permits, verifies compliance, calculates fees and surcharge bills for the customers, and enforces regulations through discharge permits, which protect the wastewater treatment facilities and the environment. An arsenic program for drinking water systems was implemented to ensure compliance with MDEQ regulations. The ordinance also allows for best management practices (BMP) in regulating silver and mercury from over 450 physician and dental offices and grease and oil from approximately 1,200 restaurants. Inter-jurisdictional agreements and the sewer use ordinance have been distributed to the municipalities that discharge into the Division's systems, and the local unit of government approval process is ongoing. At this time, there are 14 significant industrial facilities, and four categorical users that pay surcharges for the cost of treating various substances they discharge to the Division.

Water Supply – Traditionally, the water supply department has been responsible for acquisition of treated water from the Great Lakes Water Authority (GLWA). The Division distributes potable water to local communities, which in turn supply their residential, commercial, and industrial customers. The Division also contracts with certain local municipalities to operate and maintain their water systems, as well as provide billing services.

The Division maintains a distribution system consisting of over 600 miles of water mains. It also installs water connections and performs turn-ons/off at the request of its communities, services and changes water meters, and oversees the backflow prevention program. In order to provide an uninterrupted supply of safe drinking water, the Division works to:

- Identify and evaluate water supply alternatives to meet normal and emergency needs
- Prepare cost estimates to construct, operate, and maintain selected alternatives
- Determine water treatment and pumping requirements

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

During 2017, the Division completed its plans to acquire a new water supply via its participation in the component unit Karegnondi Water Authority (KWA). The KWA began to supply untreated water to the Division for testing in July 2017, and for customer use in November 2017.

The Division completed construction of its new water treatment plant, which treats the raw water being supplied by the KWA. The new water treatment plant began testing in July 2017, and officially came online in late November 2017. In December 2017 the Division discontinued its purchase and use of GLWA treated water.

Rate Structure

During 2017, the Division received a water supply rate increase from the GLWA, which the Division passed through to its community customers beginning in September 2017. Previously approved sewer rate increases for Districts 3 and 7 took effect in January 2014, while the last ARTP sewer rate increase took effect in July 2014.

Karegnondi Water Authority

The Karegnondi Water Authority (KWA) is a discretely presented component unit of the Division. KWA is governed by a 15-member board and was created pursuant to Act 233, Michigan Public Acts of 1955. Its purpose was to acquire and operate a water pipeline that provides water to the Division and the City of Flint, which in turn would treat the water to be provided to their residents. The City of Flint has since decided to continue purchasing treated water from the GLWA. In the future, KWA could also provide raw water to other local units in Lapeer and Sanilac counties. Please note that the Division has financial accountability for KWA, but also that this is subject to change based upon redistribution of KWA capacity units.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows provide information about the activities of the Division as a whole and assist in presenting a longer-term view of its finances.

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following tables present condensed information about the Division's financial position compared to the prior year:

	December 31		Increase (Decrease)	Percent Change
	2017	2016		
Assets				
Current assets	\$ 40,144,611	\$ 32,850,489	\$ 7,294,122	22.2 %
Restricted assets	8,711,763	60,820,858	(52,109,095)	(85.7)
Noncurrent lease receivable and local unit construction in progress	41,932,220	46,297,522	(4,365,302)	(9.4)
Capital assets	423,320,230	376,684,264	46,635,966	12.4
Total assets	514,108,824	516,653,133	(2,544,309)	(0.5)
Deferred Outflows of Resources				
	12,046,873	3,106,373	8,940,500	287.8
Liabilities				
Current liabilities	17,973,294	15,542,370	2,430,924	15.6
Liabilities payable from restricted assets	5,742,496	14,600,588	(8,858,092)	(60.7)
Other noncurrent liabilities	32,706,663	38,605,550	(5,898,887)	(15.3)
Long-term debt	263,872,854	264,716,346	(843,492)	(0.3)
Total liabilities	320,295,307	333,464,854	(13,169,547)	(3.9)
Deferred Inflows of Resources				
	4,922,909	1,125,058	3,797,851	
Net Position				
Net investment in capital assets	194,451,431	185,230,686	9,220,745	5.0
Restricted	75,911	5,494,572	(5,418,661)	-
Unrestricted	6,410,139	6,356,182	53,957	0.8
Total net position	<u>\$ 200,937,481</u>	<u>\$ 197,081,440</u>	<u>\$ 3,856,041</u>	2.0

	Year Ended December 31		Increase (Decrease)	Percent Change
	2017	2016		
Revenue from operations	\$ 71,973,058	\$ 70,203,757	\$ 1,769,301	2.5 %
Gain on sale of assets	-	10,100	(10,100)	-
Interest on operating cash and receivables	15,555	13,041	2,514	19.3
Total revenue	71,988,613	70,226,898	1,761,715	2.5
Sludge disposal charges	1,184,904	982,834	202,070	20.6
Cost of water	26,059,047	22,155,625	3,903,422	17.6
Operating and maintenance expense	31,665,573	26,377,903	5,287,670	20.0
Administrative and depreciation expense	10,831,021	10,948,598	(117,577)	(1.1)
Total operating expenses	69,740,545	60,464,960	9,275,585	15.3
Other nonoperating expense	(2,379,053)	(2,783,800)	404,747	(14.5)
Change in net position - Before capital contributions	(130,985)	6,978,138	(7,109,123)	(101.9)
Capital contributions	7,500,000	750,000	6,750,000	
Special Items - Sale of pipeline	(3,512,974)	-	(3,512,974)	
Change in net position	<u>\$ 3,856,041</u>	<u>\$ 7,728,138</u>	<u>\$ (3,872,097)</u>	(50.1)

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

Major Capital Assets and Debt Activity

The majority of the Water Treatment Plant construction project was completed in late 2017, however significant invoices continue to be received from contractors. The Division is utilizing remaining portions of the \$56M water system supply bonds sold in 2016 to pay for construction costs as they are received.

The following new debt was issued during 2017:

- 15,890,000 Interceptor and Treatment (I&T) bonds used to advance refund \$15,455,000 of outstanding I&T bonds
- \$3,905,000 District 3 bonds used to advance refund \$3,840,000 of outstanding District 3 bonds
- \$10,500,000 Water bonds used for water transmission main from Henderson Road to Genesee Road
- \$1,115,565 additional Drinking Water Revolving Fund Revenue Bond drawdowns used for water meter upgrade project

The Division pays for annual debt service through the operating rates charged to users of the system, restricted County Capital Improvement Fees (CCIF) and lease receivables from other governmental entities. CCIF is intended to cover certain outstanding bond issuances and is not sufficient on an annual basis to cover the debt service; it is therefore subsidized by operating revenue. This underfunding was considered in the initial planning of the CCIF program. CCIF will continue to be collected after retirement of the related bonds to reconstitute the fund in full.

Financial Review

In analyzing Genesee County Drain Commissioner Division of Water and Waste Services' financial position, it is important to recognize the mission of the Division, which has been previously stated. A discussion of the significant financial activity during the current year is as follows:

Statement of Net Position

- Current assets increased approximately \$7.3M to approximately \$40.1M.
- Current liabilities also increased by approximately \$2.4M to approximately \$18.0M.
- Restricted assets decreased to under \$9M primarily due to use of unspent proceeds of the 2016 Water Treatment Plant bond.
- Combined unrestricted net position at year end was stable at approximately \$6.4M.

Statement of Revenue, Expenses, and Changes in Net Position

- Operating revenue increased by approximately \$1.8M (2.5 percent) in 2017, primarily due to the Great Lakes Water Authority (GLWA) water pass-through rate increase.

Operating expenses increased by 15.3 percent. Of this, cost of water increased by \$3.9M in 2017 due to rate increases from the Great Lakes Water Authority, combined with a significant

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

period when the Division was also making fixed capacity fee payments to the Karegnondi Water Authority as it prepared to switch water sources. 2018 will show a significant decrease in the actual cost of purchasing water versus 2017 levels as the Division reverts back to making water purchases from just one vendor. Overall, we expect to simply see a stabilization of water costs as the Division has new expenses associated with treating the raw water source from the KWA.

Summarizing, 2015 was the last year when the Division was making payments to a single water supplier. In 2016, the Division experienced payments to two water suppliers 25 percent of the year, with that percentage increasing to 95 percent of the year for 2017. 2018 will be a full year in which the Division is purchasing raw, or untreated water from a single supplier, which is the KWA.

- Utility costs increased approximately 16.6 percent in 2017, primarily due to bringing the new water treatment plant online in July 2017. 2018 utility costs are also expected to increase due to running the water treatment plant for a full 12 month period.
- Repairs and maintenance expenditures increased by approximately \$2.1M due to several large sewer lining projects, while general contractual services decreased by \$227,000 in 2017.
- Personnel expenses increased by over \$1.9M partially due to continued staffing increases at the new water treatment plant, plus significant increases for pension and OPEB funding.

The following table shows the trend in Interceptor and Treatment (I&T) sewage treatment revenue compared to total flow volumes for the Division's main ARTP treatment facility:

	Year Ended December 31	
	2017	2016
Total revenue from I&T customers	\$ 25,698,724	\$ 25,585,636
Total flow (thousands of gallons)	10,500,000	10,431,280
Revenue per thousands of gallons treated	\$ 2.45	\$ 2.45

Genesee County Drain Commissioner Division of Water and Waste Services

Management's Discussion and Analysis (Continued)

The following table shows the trend in water sales compared to volume of water purchased and volume of water sold, with the resulting water efficiency rate:

	Year Ended December 31	
	2017	2016
Total revenue from water sales	\$ 37,325,292	\$ 35,156,014
Volume of water purchased (cu. ft.) by Division	558,006,971	556,270,310
Volume of water sold (cu. ft.) by Division	535,602,445	561,326,691
Water efficiency rate	96%	101%
Revenue per 100 cu. ft. of water sold	\$ 6.97	\$ 6.26

Contacting the Division's Management

This financial report is intended to provide our constituents, sewer/water users, and bondholders with a general overview of Genesee County Drain Commissioner Division of Water and Waste Services' accountability for the money it receives. These financial statements are included as a component unit of Genesee County and should be viewed as part of the government-wide financial statements. If there are questions about this report or if additional information is needed, we welcome anyone to contact the Drain Commissioner or the director of the Division.

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Net Position

December 31, 2017

	Primary Government			Component Unit - September 30, 2017
	Enterprise Fund	Internal Service Fund	Total	Karegnondi Water Authority
Assets				
Current assets:				
Cash and investments (Note 2)	\$ 15,908,418	\$ 135,563	\$ 16,043,981	\$ 5,877,667
Receivables:				
Receivables from sales to customers on account	14,082,463	-	14,082,463	-
Due from other governments	6,725,911	-	6,725,911	238,708
Other construction receivables (refunds)	-	-	-	81,409
Current portion of leases receivable (Note 9)	2,295,000	-	2,295,000	-
Prepaid expenses and other assets	997,256	-	997,256	-
Total current assets	40,009,048	135,563	40,144,611	6,197,784
Noncurrent assets:				
Restricted assets (Notes 1 and 3)	8,711,763	-	8,711,763	39,968,773
Leases receivable - Net of current portion (Note 9)	36,673,572	-	36,673,572	-
Due from other governmental units	5,258,648	-	5,258,648	-
Capital assets: (Note 4)				
Assets not subject to depreciation	142,292,359	-	142,292,359	331,427,489
Assets subject to depreciation - Net	279,453,392	1,574,479	281,027,871	-
Total noncurrent assets	472,389,734	1,574,479	473,964,213	371,396,262
Total assets	512,398,782	1,710,042	514,108,824	377,594,046
Deferred Outflows of Resources				
Bond refunding loss being amortized	252,651	-	252,651	-
Deferred outflows related to pensions (Note 6)	11,794,222	-	11,794,222	-
Total deferred outflows of resources	12,046,873	-	12,046,873	-
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	10,215,024	-	10,215,024	1,657,593
Current portion of long-term debt (Note 5)	7,758,270	-	7,758,270	67,285,478
Total current liabilities	17,973,294	-	17,973,294	68,943,071
Noncurrent liabilities:				
Payable from restricted assets	5,742,496	-	5,742,496	21,105,256
Lease interest payable	-	-	-	5,258,648
Net pension liability (Note 6)	27,558,810	-	27,558,810	-
Net OPEB obligation (Note 7)	5,147,853	-	5,147,853	-
Long-term debt - Net of current portion (Note 5)	263,872,854	-	263,872,854	260,770,138
Total noncurrent liabilities	302,322,013	-	302,322,013	287,134,042
Total liabilities	320,295,307	-	320,295,307	356,077,113
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 6)				
	4,922,909	-	4,922,909	-
Net Position				
Net investment in capital assets	192,876,952	1,574,479	194,451,431	14,802,771
Restricted for debt service	75,911	-	75,911	7,514,028
Unrestricted	6,274,576	135,563	6,410,139	(799,866)
Total net position	\$ 199,227,439	\$ 1,710,042	\$ 200,937,481	\$ 21,516,933

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2017

	Primary Government			Component Unit -
	Major Enterprise	Internal Service	Total	Year Ended
		Fund		September 30,
				2017
				Karegnondi Water Authority
Operating Revenue				
Sale of water	\$ 37,325,292	\$ -	\$ 37,325,292	\$ 441,074
Sewage disposal charges	31,322,285	-	31,322,285	-
Billing services	142,325	-	142,325	-
Water meter sales	140,115	-	140,115	-
Sewer and pumping station - Operation and maintenance	1,295,379	-	1,295,379	-
Other operating revenue	1,747,662	-	1,747,662	-
Total operating revenue	71,973,058	-	71,973,058	441,074
Operating Expenses				
Cost of water	26,059,047	-	26,059,047	-
Sludge disposal service	1,184,904	-	1,184,904	-
Cost of insurance claims and expenses	705,867	-	705,867	69,222
Repairs and maintenance	5,026,706	-	5,026,706	17,002
Other supplies and expenses	2,022,450	72,816	2,095,266	4,854
Contractual services	1,496,279	-	1,496,279	1,216,017
Utilities	3,857,809	-	3,857,809	289,743
Personnel services	20,685,792	-	20,685,792	-
Depreciation	8,343,403	285,472	8,628,875	-
Total operating expenses	69,382,257	358,288	69,740,545	1,596,838
Operating Income (Loss)	2,590,801	(358,288)	2,232,513	(1,155,764)
Nonoperating Revenue (Expense)				
Investment income - Net	15,555	-	15,555	52,116
Community bond interest income	1,875,712	-	1,875,712	-
Community bond interest expense	(1,875,712)	-	(1,875,712)	-
Capacity/Debt service fee	-	-	-	17,760,242
Miscellaneous income	1,141,612	-	1,141,612	-
Interest and fiscal charges	(3,520,665)	-	(3,520,665)	-
Total nonoperating (expense) revenue	(2,363,498)	-	(2,363,498)	17,812,358
Income (Loss) - Before capital contributions	227,303	(358,288)	(130,985)	16,656,594
Capital Contributions	7,500,000	-	7,500,000	-
Special Items - Sale of pipeline (Note 4)	(3,512,974)	-	(3,512,974)	-
Change in Net Position	4,214,329	(358,288)	3,856,041	16,656,594
Net Position - Beginning of year	195,013,110	2,068,330	197,081,440	4,860,339
Net Position - End of year	\$ 199,227,439	\$ 1,710,042	\$ 200,937,481	\$ 21,516,933

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows

Year Ended December 31, 2017

	Primary Government			Component Unit -
	Enterprise Fund	Internal Service	Total	Year Ended
		Fund		September 30,
				2017
				Karegnondi Water Authority
Cash Flows from Operating Activities				
Receipts from customers	\$ 69,930,733	\$ -	\$ 69,930,733	\$ 202,366
Payments to suppliers and others for goods and services	(39,730,972)	(79,297)	(39,810,269)	(1,495,662)
Payments for salaries and employee benefits	(18,106,180)	-	(18,106,180)	-
Net cash and cash equivalents provided by (used in) operating activities	12,093,581	(79,297)	12,014,284	(1,293,296)
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of refunding bonds	31,352,329	-	31,352,329	-
Collection of leases receivable from municipalities	3,770,000	-	3,770,000	-
Collection of interest from communities and C.U. (KWA)	1,904,687	-	1,904,687	-
Purchase of capital assets	(66,383,267)	(98,296)	(66,481,563)	(9,353,924)
Principal paid on bond maturities	(12,095,000)	-	(12,095,000)	(14,422,572)
Debt service charge	-	-	-	17,760,242
Interest paid on bonds	(5,915,325)	-	(5,915,325)	-
Miscellaneous revenue	1,124,963	-	1,124,963	-
Retirement of refunded bonds	(19,295,000)	-	(19,295,000)	-
Capital grant contribution	2,549,118	-	2,549,118	-
Net cash and cash equivalents used in capital and related financing activities	(62,987,495)	(98,296)	(63,085,791)	(6,016,254)
Cash Flows from Investing Activities				
Investment income	15,555	-	15,555	566,624
Purchases of investment securities	-	-	-	(3,964,103)
Net cash and cash equivalents provided by (used in) investing activities	15,555	-	15,555	(3,397,479)
Net Decrease in Cash and Cash Equivalents	(50,878,359)	(177,593)	(51,055,952)	(10,707,029)
Cash and Cash Equivalents - Beginning of year	75,498,540	313,156	75,811,696	18,969,730
Cash and Cash Equivalents - End of year	\$ 24,620,181	\$ 135,563	\$ 24,755,744	\$ 8,262,701
Classification of Cash and Cash Equivalents				
Cash and investments	\$ 15,908,418	\$ 135,563	\$ 16,043,981	\$ 5,877,667
Restricted cash	8,711,763	-	8,711,763	39,968,773
Less amounts classified as investments	-	-	-	(37,583,739)
Total cash and cash equivalents	\$ 24,620,181	\$ 135,563	\$ 24,755,744	\$ 8,262,701

Genesee County Drain Commissioner Division of Water and Waste Services

Statement of Cash Flows (Continued)

Year Ended December 31, 2017

	Primary Government			Component Unit -
				Year Ended
	Enterprise Fund	Internal Service Fund	Total	September 30, 2017
				Karegnondi Water Authority
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 2,590,801	\$ (358,288)	\$ 2,232,513	\$ (1,155,764)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	8,343,403	285,472	8,628,875	-
Changes in assets and liabilities:				
Receivables	(2,042,326)	-	(2,042,326)	(238,708)
Prepaid and other assets	105,935	-	105,935	-
Accounts payable and accrued expense	516,156	(6,481)	509,675	101,176
Accrued and other liabilities	199,797	-	199,797	-
Net pension liability	2,379,815	-	2,379,815	-
Total adjustments	9,502,780	278,991	9,781,771	(137,532)
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 12,093,581</u>	<u>\$ (79,297)</u>	<u>\$ 12,014,284</u>	<u>\$ (1,293,296)</u>

December 31, 2017

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The Genesee County Drain Commissioner Division of Water and Waste Services, a component unit of Genesee County, Michigan (the "Division"), follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Division:

Reporting Entity

The Division is a discretely presented component unit of Genesee County, Michigan. The Division was organized in September 1965 under Michigan's Public Act 342 of 1939 (as amended subsequently). The Division's major operations are the construction and operation of water and waste systems in Genesee County, Michigan (the "County") and certain areas in surrounding counties. Construction is financed with proceeds from the sale of bonds and federal and state grants. The operating activities are financed primarily through user charges to municipalities in the systems.

The financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Included within the reporting entity are the following:

1. Genesee County Sewage Disposal Systems Nos. 1, 2, 5, and 6 (interceptor and treatment facilities)
2. Genesee County Sanitary Sewage Disposal Systems Nos. 3 and 7
3. Genesee County water supply systems
4. Genesee County Division of Water and Waste Services - Vehicle and Equipment Fund (Internal Service Fund)
5. Karegnondi Water Authority - Component unit (Water Fund)

Discretely Presented Component Units

In evaluating how to define the Division for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governmental body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Division is able to exercise oversight responsibilities. Based on the application of these criteria, the Karegnondi Water Authority will be presented as described in the following paragraph.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Karegnondi Water Authority

The Karegnondi Water Authority (the "Authority" or KWA) was created to construct a water supply line in Lake Huron and transport that water to its treatment facilities east of Genesee County. The Authority's governing body, which consists of 15 individuals, of which eight are currently directly or indirectly appointed by the drain commissioner. In addition, these board members may be removed at the discretion of the drain commissioner. The appointment of board members is subject to change in the future, as additional water supply contracts are entered into or capacity units are redistributed. Complete financial reports can be obtained at their administrative offices at 4610 Beecher Road, Flint MI 48532. The KWA reports its activities on a fiscal year ending September 30. The KWA column included in these financial statements, therefore, is as of and for the year ended September 30, 2017.

Report Presentation

This report includes the fund-based statements of the Division. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

Fund Accounting

Proprietary Funds

The Division reports the following major proprietary fund:

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, whereby the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

Additionally, the Division reports the following Internal Service Fund:

The Internal Service Fund accounts for financing of goods and services provided by one department to other departments of the Division on a cost-plus basis.

Basis of Accounting

The Division uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments

Investments are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value.

Receivables and Payables

Outstanding balances between funds are reported in the basic financial statements as "internal balances." All trade receivables are shown as net of an allowance for uncollectible amounts.

Note 1 - Significant Accounting Policies (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Restricted Assets

The Division's bond ordinance requires certain amounts to be set aside for debt service principal and interest. In addition, unspent bond proceeds and county capital improvement fees are restricted for the construction of water collection and sewage disposal systems projects and debt service. These amounts have been classified as restricted assets. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Leases Receivable

Leases receivable consist of amounts due to the Division from various municipalities and the component unit, Karegnondi Water Authority, for construction activity. The Division constructs assets for various municipalities under Act 342. Under this act, the County issues bonds and constructs assets on behalf of municipalities. These assets are then leased by the municipalities over the lives of the bonds. Lease payments approximate the debt service requirements of the associated bonds.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., underground networks), are reported in the Enterprise Fund in the fund financial statements. Capital assets are defined by the Division as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation has been calculated on each class of property using the straight-line method based on the estimated useful lives of the assets, as follows:

	Depreciable Life - Years
	<hr/>
Land improvements and underground networks	25-100
Buildings and improvements	10-50
Machinery and equipment	3-25

Local Unit Construction in Progress

Local unit construction in progress represents construction of water and sewer distribution and collection systems performed by the Division for local communities. The projects are recorded as an asset during the construction phase and are offset by an unearned lease. When the projects are substantially complete, the asset and unearned lease are removed from the basic financial statements, and an asset is recorded by the local community. There were no outstanding projects at December 31, 2017.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations

Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred.

Liabilities Payable from Restricted Assets

The Division uses the restricted assets to liquidate construction-related payables and current interest and principal payable on outstanding bonds. Therefore, these amounts due have been reported as a noncurrent liability.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then.

The Division reports deferred outflows related to pension costs (assumption changes, investment earnings different than assumed, and contributions made subsequent to the measurement date) as well as deferred charges related to advance refundings of bond issues.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The Division reports deferred inflows related to pensions (experience differences and assumptions changes) that will reduce future year pension expense.

Net Position

Net position of the Division is classified in three components. Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted for debt service consists of funds restricted to meet future interest and principal payments on bond obligations. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Division will sometimes fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Division's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Unearned Leases

Unearned leases represent cash and investments and construction in progress recorded on the Division's books belonging to the municipalities participating in the water collection and sewage disposal system. There were no unearned leases recorded at December 31, 2017.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Pension

The Division offers a defined benefit pension plan to its employees. The Division records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the GCERS Pension Plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs

The Division offers retiree healthcare benefits to retirees. The Division receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. For the government-wide statements and proprietary funds, the Division reports the full accrual cost equal to the current year required contribution adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences (Vacation and Personal Leave)

It is the Division's policy to permit employees to accumulate earned but unused vacation and personal pay benefits. Personal pay is accrued for the estimated amount that the Division will pay upon retirement or separation. 80 hours of personal leave is granted at the beginning of each year. Nonunion employees are paid up to 112 hours at current salary upon retirement or separation. Union employees are paid up to 112 hours at current salary upon retirement only. Vacation pay is accrued when incurred. Vacation time is granted twice a year based on the length of service, and the unpaid accumulated balance is paid upon retirement or separation at the current salary. Both of these are reported in proprietary fund financial statements. Generally, the funds that report each employee's compensation are used to liquidate the obligations. At December 31, 2017, the Division has recorded a liability of approximately \$620,000 for accumulated vacation and personal leave.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Enterprise Fund and Internal Service Fund is charges to customers for sales and services. The Enterprise Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Enterprise Fund and Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Division to recognize on the face of the financial statements its net OPEB liability related to its participation in the Genesee County Water and Waste Division Post-Employment Health Benefits plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Division is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Division's financial statements for the year ending December 31, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Division is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Division's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Division is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Division's financial statements for the year ending December 31, 2020.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Division has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Division's deposits and investment policies are in accordance with statutory authority.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 2 - Deposits and Investments (Continued)

The Division's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Division's deposits may not be returned to it. The Division does not have a deposit policy for custodial credit risk. At year end, the Division had \$22,905,466 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. Bank deposits of \$500,000 were insured and \$3,825,398 were collateralized. The Division believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Division evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

For the year ended September 30, 2017, Karegnondi Water Authority had \$7,234,078 (checking and savings accounts) that was not fully insured or collateralized.

Fair Value Measurements

The Division categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. All cash and investments owned by the Division and KWA are properly valued at cost; there is no fair value hierarchy applicable.

Note 3 - Restricted Assets

At December 31, 2017, restricted assets are composed of the following:

Description	Enterprise Fund	Component Unit - KWA
Unspent bond proceeds and related interest	\$ 4,469,928	\$ 1,856,411
Unspent bond proceeds held by the County	100,000	528,624
General obligation bond restrictions:		
Debt reserve/redemption	4,141,835	26,177,281
Capacity/Debt service fee for debt service	-	11,406,457
Total	<u>\$ 8,711,763</u>	<u>\$ 39,968,773</u>

The general obligation bond debt reserve is restricted for debt service per the bond agreements. The KWA capacity fee is restricted per the bond agreement for current principal and interest payments on general obligation bonds and the capital lease.

Net position has been restricted for \$75,911 and \$7,514,028 for the Division and KWA, respectively, related to the restricted assets held for debt service, net of the related payable.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 4 - Capital Assets

Capital asset activity of the Division's proprietary funds was as follows:

	Balance January 1, 2017	Additions	Disposals and Adjustments	Balance December 31, 2017
Enterprise Fund				
Capital assets not being depreciated:				
Land	\$ 2,313,197	\$ 164,967	\$ -	\$ 2,478,164
Construction in progress	82,618,414	57,872,951	(677,170)	139,814,195
Subtotal	84,931,611	58,037,918	(677,170)	142,292,359
Capital assets being depreciated:				
Distribution and collections system	366,642,152	-	(3,987,702)	362,654,450
Buildings and equipment	14,622,769	854,107	-	15,476,876
Vehicles	1,206,957	464,665	-	1,671,622
Subtotal	382,471,878	1,318,772	(3,987,702)	379,802,948
Accumulated depreciation:				
Distribution and collections system	85,687,105	7,552,274	(474,728)	92,764,651
Buildings and equipment	6,074,087	649,900	-	6,723,987
Vehicles	719,688	141,230	-	860,918
Subtotal	92,480,880	8,343,404	(474,728)	100,349,556
Net capital assets being depreciated	289,990,998	(7,024,632)	(3,512,974)	279,453,392
Net capital assets	<u>\$ 374,922,609</u>	<u>\$ 51,013,286</u>	<u>\$ (4,190,144)</u>	<u>\$ 421,745,751</u>
	Balance January 1, 2017	Additions	Disposals and Adjustments	Balance December 31, 2017
Internal Service Fund				
Capital assets being depreciated - Buildings and equipment	\$ 7,939,685	\$ 98,296	\$ (20,529)	\$ 8,017,452
Accumulated depreciation - Buildings and equipment	6,178,030	285,472	(20,529)	6,442,973
Net capital assets	1,761,655	(187,176)	-	1,574,479
Net proprietary funds capital assets	<u>\$ 376,684,264</u>	<u>\$ 50,826,110</u>	<u>\$ (4,190,144)</u>	<u>\$ 423,320,230</u>

Construction in progress additions include \$4,688,877 of interest costs that have been capitalized as part of the cost of assets.

Special Item - In accordance with an agreement entered into between the Division and the City of Flint, Michigan, the Division was required to return a pipeline to the City of Flint, Michigan at no cost. The asset was disposed of during the year ended December 31, 2017 and had a net book value of \$3,512,974. This transaction was considered unusual and infrequent in nature and, thus, was recorded as a special item.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 4 - Capital Assets (Continued)

Capital asset activity for the Division's component unit, KWA, for the year ended September 30, 2017 was as follows:

Component Unit

	Balance October 1, 2016	Additions	Disposals and Adjustments	Balance September 30, 2017
Capital assets not being depreciated - Construction in progress	\$ 310,377,287	\$ 21,050,202	-	\$ 331,427,489

Construction in progress additions include \$14,903,686 of interest costs that have been capitalized as part of the cost of assets.

Construction Commitments

The Division has active construction projects at year end, which include improvements and extensions to the water and sewage disposal systems. The most significant project related to the water supply system construction. The Division spent \$124,727,614 to date and has \$2,356,205 remaining on outstanding contracts.

The component unit, KWA, had the water pipeline project in progress during the year. At year end, it spent \$257,489,982 and had \$3,920,204 remaining on the contract.

Note 5 - Long-term Debt

The Division issues bonds to provide for the construction of water and waste systems in Genesee County and certain areas in surrounding counties. General obligation bonds are direct obligations and pledge the full faith and credit of the County. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service and require certain financial covenants to be met.

Long-term debt activity for the year ended December 31, 2017 can be summarized as follows:

Business-type Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Genesee County drain commissioner bonds payable:							
Interceptor and treatment facilities	1.625%-5.00%	2031	\$ 71,276,023	\$ 15,890,000	\$ (22,010,000)	\$ 65,156,023	\$ 5,920,000
District No. 3	2.14%-4.50%	2030	4,945,000	3,905,000	(4,180,000)	4,670,000	385,000
Water supply system	0.90%-5.375%	2046	181,059,561	11,615,565	(2,295,000)	190,380,126	3,810,000
Premiums on bonds payable			10,865,394	-	(522,261)	10,343,133	-
Subtotal			268,145,978	31,410,565	(29,007,261)	270,549,282	10,115,000
Community-related bonds payable:							
Interceptor and treatment facilities	4.00%-4.35%	2025	3,185,000	-	(1,815,000)	1,370,000	390,000
District No. 3	4.00%-7.375%	2019	2,830,000	-	(1,010,000)	1,820,000	915,000
Water supply system	2.50%	2035	1,710,400	13,172	(80,000)	1,643,572	90,000
Subtotal	-	-	7,725,400	13,172	(2,905,000)	4,833,572	1,395,000
Total business-type activities long-term debt			\$ 275,871,378	\$ 31,423,737	\$ (31,912,261)	\$ 275,382,854	\$ 11,510,000

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 5 - Long-term Debt (Continued)

Component Unit

	Beginning Balance October 1, 2016	Additions	Reductions	Ending Balance September 30, 2017	Due Within One Year
Bonds	\$ 294,870,000	\$ -	\$ -	\$ 294,870,000	\$ 78,475,000
Premiums on bonds payable	10,633,990	-	(393,852)	10,240,138	-
Capital lease	35,000,000	-	-	35,000,000	865,000
Total component units long-term debt	<u>\$ 340,503,990</u>	<u>\$ -</u>	<u>\$ (393,852)</u>	<u>\$ 340,110,138</u>	<u>\$ 79,340,000</u>

A total of \$3,751,730 of the \$11,510,000 due within one year for the Division is included in payable from restricted assets on the statement of net position.

A total of \$12,054,522 of the \$79,340,000 due within one year for KWA is included in payable from restricted assets on the statement of net position.

Total interest expense for the Division for the year was \$10,432,300, of which \$4,688,877 (interest expense net of interest income and premium amortization) was capitalized. Total interest expense for KWA for the year was \$15,418,194, of which \$14,903,686 (interest expense net of interest income) was capitalized.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending December 31	Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 11,510,000	\$ 10,050,898	\$ 21,560,898	\$ 78,475,000	\$ 14,476,840	\$ 92,951,840
2019	11,495,000	9,642,476	21,137,476	4,275,000	10,861,863	15,136,863
2020	10,585,000	9,314,599	19,899,599	4,475,000	10,669,612	15,144,612
2021	10,935,000	8,988,983	19,923,983	4,655,000	10,471,362	15,126,362
2022	11,255,000	8,649,008	19,904,008	4,870,000	10,263,238	15,133,238
2023-2027	59,425,000	37,674,086	97,099,086	28,035,000	47,439,563	75,474,563
2028-2032	42,500,288	27,502,068	70,002,356	35,960,000	39,271,875	75,231,875
2033-2037	39,959,307	20,004,968	59,964,275	46,235,000	28,759,669	74,994,669
2038-2042	37,450,126	10,970,483	48,420,609	59,560,000	15,071,162	74,631,162
2043-2047	29,925,000	2,505,725	32,430,725	28,330,000	1,433,750	29,763,750
Total	<u>\$ 265,039,721</u>	<u>\$ 145,303,294</u>	<u>\$ 410,343,015</u>	<u>\$ 294,870,000</u>	<u>\$ 188,718,934</u>	<u>\$ 483,588,934</u>

Bond Refunding

During the year, the Division issued \$15,890,000 (interceptor and treatment facilities) and \$3,905,000 (District No. 3) in general obligation (revenue) bonds with interest rates of 2.09 and 2.14 percent, respectively. The proceeds of these bonds were used to advance refund \$15,455,000 of outstanding interceptor and treatment facilities bonds with an average interest rate of 4.00 percent and \$3,840,000 of outstanding District No. 3 bonds with an average interest rate of 4.25 percent. The net proceeds of \$19,680,194 million (after payment of \$114,806 in underwriting fees, insurance, and other issuance costs) plus an additional \$357,845 of the Division's monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased, and the liability for the bonds has been removed from the Division's books. The advance refunding reduced total debt service payments over the next 11 years by approximately \$2,936,221, which represents an economic gain of approximately \$2,603,228.

Note 6 - Pension Plan

Plan Description

The Division participates in a contributory agent multiple-employer defined benefit pension plan known as the Genesee County Employees Retirement System (GCERS or the "System"), administered by Genesee County, Michigan. The plan is included as a pension trust fund in Genesee County's Comprehensive Annual Financial Report.

The system issues a publicly available financial report that can be obtained at 1101 Beach Street, Flint MI 48502 or on the State of Michigan's website.

GCERS was organized pursuant to Section 12a of Act 156, State of Michigan Public Acts of 1851 (MSA 5.33(l); MCLA 46.12a) as amended. GCERS was established by ordinance in 1946, beginning with general county employees and the County Road Commission. Genesee County Water and Waste Services joined the system in 1956; Genesee County Community Mental Health joined in 1966; the City of Mt. Morris, Michigan joined in 1969; and the Genesee District Library joined in 1980. GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the State of Michigan Pension Commission.

Benefits Provided

GCERS provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in GCERS.

GCERS provides for vesting of benefits after 10 years of service. Generally, participants may elect normal retirement with 25 years of credited service, regardless of age, or retire at age 60 with 10 or more years of credited service. Retirement benefits vary by employer group and are payable monthly. Generally, the retirement benefit is equal to the employee's final average compensation times the sum of 2.0-2.4 percent for each year of credited service. All employers allow members to elect a deferred annuity providing a lifetime benefit. The length of service required to elect the deferred annuity is either 8 or 10 years, depending on the date of employment and employer group.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments range between 1.75 percent and 3 percent, noncompounding.

Benefit terms, within the parameters established by GCERS, are generally established and amended by authority of the county commissioners, generally after negotiations of these terms with the affected unions. The covered employees' benefit terms may be subject to binding arbitration in certain circumstances.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Genesee County Employees Retirement Plan
Date of member count	December 31, 2016
Inactive plan members or beneficiaries currently receiving benefits	94
Inactive plan members entitled to but not yet receiving benefits	7
Active plan members	<u>128</u>
Total employees covered by the plan	<u><u>229</u></u>

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 6 - Pension Plan (Continued)

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, GCERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the GCERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2017, one appointed employee contributes 5 percent and all others contribute 7 percent of annual pay and the Division's average contribution rate was 20.0 percent of annual payroll.

Net Pension Liability

The Division has chosen to use the December 31 measurement date, as its measurement date for the net pension liability. The December 31, 2017 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2016 measurement date. The December 31, 2016 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at January 1, 2016	\$ 73,194,499	\$ 41,012,937	\$ 32,181,562
Changes for the year:			
Service cost	1,541,981	-	1,541,981
Interest	4,014,166	-	4,014,166
Differences between expected and actual experience	(2,164,986)	-	(2,164,986)
Changes in assumptions	(2,560,324)	-	(2,560,324)
Contributions - Employer	-	1,634,400	(1,634,400)
Contributions - Employee	-	571,224	(571,224)
Net investment income	-	3,287,118	(3,287,118)
Benefit payments, including refunds	(3,536,526)	(3,536,526)	-
Administrative expenses	-	(39,153)	39,153
Net changes	(2,705,689)	1,917,063	(4,622,752)
Balance at December 31, 2016	\$ 70,488,810	\$ 42,930,000	\$ 27,558,810

The plan's fiduciary net position represents 60.9 percent of the total pension liability.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 6 - Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Division recognized pension expense of \$4,147,316.

At December 31, 2017, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (2,733,646)
Changes in assumptions	9,502,270	(2,189,263)
Net difference between projected and actual earnings on pension plan investments	524,451	-
Employer contributions to the plan subsequent to the measurement date	1,767,501	-
Total	<u>\$ 11,794,222</u>	<u>\$ (4,922,909)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending December 31	Amount
2018	\$ 1,357,495
2019	1,357,495
2020	1,370,503
2021	898,167
2022	736,497
Thereafter	(616,345)

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using an inflation assumption of 3 percent; assumed salary increases (including inflation) of 3.0-7.03 percent, which include across-the-board increases along with merit and longevity increases that range from .17 percent up to 4.03 percent; an investment rate of return (net of administrative and investment expenses) of 8 percent; and using the RP-2000 Combined Healthy Annuitant Mortality Table projected to 2014.

Discount Rate

The discount rate used to measure the total pension liability was 6.07 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that division contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate incorporates both the assumed rate of return of 8.0 percent and a municipal bond rate, which was 3.71 percent. The source of that bond rate was the S&P Muni Bond 20-year high-grade index.

December 31, 2017

Note 6 - Pension Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The nominal long-term expected rate of return for the plan as a whole was 7.00 percent. The target allocation by class is as follows:

Asset Class	Target Allocation
U.S. equities active or passive	37.00 %
Non-U.S. equities	18.00
Domestic fixed income	25.00
Commercial real estate	18.00
Cash equivalents	2.00

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Division, calculated using the discount rate of 6.07 percent, as well as what the Division's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.07%)	Current Discount Rate (6.07%)	1 Percent Increase (7.07%)
Net pension liability of the Division	\$ 36,364,441	\$ 27,558,810	\$ 20,119,548

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is not available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Assumption Changes

For the December 31, 2016 actuarial valuation, there were assumption changes that resulted in a decrease in the calculated total pension liability. The assumptions changed during the year related to the discount rate; see above for the assumption used.

Note 7 - Other Postemployment Benefits

Plan Description

The Division provides retiree health care, dental, life, and vision benefits to eligible employees and their spouses and dependents through the Municipal Employees' Retirement System. This is an agent multiple-employer defined benefit plan administered by the Division. The benefits are provided under collective bargaining and employee agreements.

Funding Policy

The collective bargaining and employee agreements do not require employee contributions. The Division has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Division has made contributions to advance fund these benefits, as determined by the Division.

Funding Progress

For the year ended December 31, 2017, the Division has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2017. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,033,990
Interest on the prior year's net OPEB obligation	386,089
Less adjustment to the annual required contribution	<u>(159,558)</u>
Annual OPEB cost	3,260,521
Amounts contributed:	
Payment of current premiums	(1,523,048)
Advance funding	(1,737,473)
OPEB obligation - Beginning of year	<u>5,147,853</u>
OPEB obligation - End of year	<u><u>\$ 5,147,853</u></u>

The net OPEB obligation is recorded in the basic financial statements as part of noncurrent liabilities.

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage of ARC Contributed	Contribution Rate as Percentage of Valuation Payroll
December 31, 2015	December 31, 2015	\$ 2,715,562	110.70 %	36.80 %
December 31, 2016	December 31, 2016	2,845,372	108.51	37.45
December 31, 2017	December 31, 2017	3,033,990	107.47	34.70

* The required contribution is expressed to the Division as a flat dollar amount.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 7 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
December 31, 2015	\$ 9,101,281	\$ 41,766,267	\$ 32,664,986	21.79 %	\$ 8,163,418	400.14 %
December 31, 2016	11,648,845	45,148,521	33,499,676	25.80	8,244,365	406.33
December 31, 2017	14,759,698	45,608,638	30,848,940	32.36	9,397,507	328.27

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and preceding year were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
December 31, 2015	\$ 2,977,136	101.00	\$ 5,162,916
December 31, 2016	3,072,564	100.50	5,147,853
December 31, 2017	3,260,521	100.00	5,147,853

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2017 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.50 percent investment rate of return (net of administrative expenses) and an assumed rate of increase for healthcare costs was 6 percent for medical and prescription drugs for 2017, with this rate decreasing in 0.1 percent increments over the following 10 years. Thereafter, it is assumed to be 5.0 percent per year. The UAAL is being amortized as a level percentage of projected payroll over 30 years on an open basis.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 8 - Risk Management

The Division is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Division is partially self-insured for medical, dental, and vision benefits and has purchased commercial insurance for life, disability, workers' compensation, and general liability insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Division estimates the liability for medical claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The liability is included with accounts payable and other accrued expenses in the statement of net position. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2017</u>	<u>2016</u>
Unpaid claims - Beginning of year	\$ 504,899	\$ 507,921
Incurred claims, including claims incurred but not reported	2,231,679	2,423,517
Claim payments	<u>(2,271,645)</u>	<u>(2,426,539)</u>
Unpaid claims - End of year	<u>\$ 464,933</u>	<u>\$ 504,899</u>

Note 9 - Related Party Transactions

During fiscal year 2013, the Karegnondi Water Authority (the "Authority") was formed. The Authority retained the services of the Division to administer the design and construction of the raw water supply system. In addition, the Authority contracted with the Division for the operation and maintenance of the raw water supply system. The Authority has no employees of its own, with all current and future services expected to be rendered by division employees.

The Division has entered into certain contracts with the Authority as a local unit so as to acquire a supply of raw water. This new raw water supply system began being utilized by the Division in late 2017, at which time the Division ceased purchasing finished water from the Great Lakes Water Authority.

In August 2013, the Division entered into a water purchase contract with the Authority, which provides the Division with 42 MGD of capacity, out of a total authority capacity of 60 MGD. This arrangement in effect means the Division will provide the Authority with 70 percent or more of its total operating revenue over the coming years. In addition, the Division has entered into a financing contract with the Authority, which obligates the Division to pay to the Authority approximately 66 percent of the Authority's debt service. This allocation takes into account and credits the Division for financing and being responsible for the payment of 100 percent of the costs of the intake portion of the project discussed below. A copy of the financing contract can be viewed in the Authority's bonding official statements.

The Division has a lease receivable related to the Division's \$35 million bond issuance in 2013 for construction of an intake facility and two pump stations. Recording of the receivable was a result of modification of a supply contract with KWA in April 2014, effectively stating the Division is to turn over title to the aforementioned facilities to KWA upon redemption of the bonds. Based on contract terms, GASB Statement No. 62, paragraph 213 requires KWA to treat facilities as a capital lease and record as construction in progress the cost of land and other construction costs previously incurred by the Division. The Division reports a lease receivable, and KWA reports long-term debt.

Genesee County Drain Commissioner Division of Water and Waste Services

Notes to Financial Statements

December 31, 2017

Note 9 - Related Party Transactions (Continued)

The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded as a present value of the future minimum lease payments as of the inception date. The future minimum lease obligations (for KWA) and the net present value are as follows:

2018	\$	2,527,587
2019		2,526,587
2020		2,529,187
2021		2,525,437
2022		2,529,438
2023 - 2027		12,638,175
2028 - 2032		12,632,738
2033 - 2037		12,635,269
2038 - 2041		<u>10,112,648</u>
Total minimum lease payments		60,657,066
Less amount representing interest		<u>(26,522,066)</u>
Present value	\$	<u><u>34,135,000</u></u>

Required Supplemental Information

Genesee County Drain Commissioner Division of Water and Waste Services

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

Last Three Fiscal Years Ended December 31

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 1,541,981	\$ 879,564	\$ 792,297
Interest	4,014,166	4,017,471	3,903,244
Differences between expected and actual experience	(2,164,986)	(50,724)	(1,552,139)
Changes in assumptions	(2,560,324)	12,131,977	1,720,622
Benefit payments, including refunds	(3,536,526)	(3,474,956)	(3,430,840)
Other	-	205,519	-
Net Change in Total Pension Liability	(2,705,689)	13,708,851	1,433,184
Total Pension Liability - Beginning of year	73,194,499	59,485,648	58,052,464
Total Pension Liability - End of year	\$ 70,488,810	\$ 73,194,499	\$ 59,485,648
Plan Fiduciary Net Position			
Contributions - Employer	\$ 1,642,376	\$ 1,608,830	\$ 1,434,116
Contributions - Member	571,224	573,221	491,212
Net investment income	3,287,118	519,442	2,799,943
Administrative expenses	(39,153)	(46,313)	(45,417)
Benefit payments, including refunds	(3,536,526)	(3,474,956)	(3,430,840)
Other	(7,976)	56,737	-
Net Change in Plan Fiduciary Net Position	1,917,063	(763,039)	1,249,014
Plan Fiduciary Net Position - Beginning of year	41,012,937	41,775,976	40,526,962
Plan Fiduciary Net Position - End of year	\$ 42,930,000	\$ 41,012,937	\$ 41,775,976
Division's Net Pension Liability - Ending	\$ 27,558,810	\$ 32,181,562	\$ 17,709,672
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	60.90 %	56.03 %	70.23 %
Covered Employee Payroll	\$ 8,828,330	\$ 8,211,886	\$ 7,910,806
Division's Net Pension Liability as a Percentage of Covered Employee Payroll	312.16 %	391.90 %	223.90 %

Genesee County Drain Commissioner Division of Water and Waste Services

Required Supplemental Information Schedule of Pension Contributions

Last Ten Fiscal Years Years Ended December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,430,189	\$ 1,330,325	\$ 1,456,379	\$ 1,491,452	\$ 1,456,416	\$ 1,531,645	\$ 1,763,782	\$ 1,744,861	\$ 1,679,931	\$ 1,717,656
Contributions in relation to the actuarially determined contribution	1,767,501	1,642,376	1,608,830	1,491,452	1,456,416	1,531,645	1,763,782	1,744,861	1,679,931	1,717,656
Contribution Excess	\$ 337,312	\$ 312,051	\$ 152,451	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 8,828,330	\$ 8,211,886	\$ 7,910,806	\$ 7,331,367	\$ 7,199,930	\$ 7,050,579	\$ 7,312,770	\$ 7,610,890	\$ 8,130,143	\$ 8,420,060
Contributions as a Percentage of Covered Employee Payroll	20.02 %	20.00 %	20.34 %	20.34 %	20.23 %	21.72 %	24.12 %	22.93 %	20.66 %	20.40 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Division's fiscal year ended December 31, 2017 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	25 years, open
Asset valuation method	Four-year smoothed market
Inflation	3.00 percent
Salary increase	3.0-7.03 percent, including inflation
Investment rate of return	8.0 percent, net of pension plan investment expense, including inflation
Retirement age	60
Mortality	RP 2000 Combined Healthy Mortality Table projected to 2014
Other information	None

Genesee County Drain Commissioner Division of Water and Waste Services

**Required Supplemental Information
Schedule of OPEB Funding Progress**

**Last Ten Fiscal Years
Year Ended December 31, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
December 31, 2015	\$ 9,101,281	\$ 41,766,267	\$ 32,664,986	21.79	\$ 8,163,418	400.14
December 31, 2016	11,648,845	45,148,521	33,499,676	25.80	8,244,365	406.33
December 31, 2017	14,759,698	45,608,638	30,848,940	32.36	9,397,507	328.27

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2017, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5
Medical inflation rate	6.0

Other Supplemental Information

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information Combining Statement of Net Position Enterprise Fund Divisional Detail

December 31, 2017

(with comparative totals for 2016)

	2017				Total	2016
	Interceptor and Treatment Facilities	Sewage Disposal District No. 3	Sewage Disposal District No. 7	Water Supply Systems		
Assets						
Current assets:						
Cash and cash equivalents	\$ 7,328,992	\$ 2,163,040	\$ 621,417	\$ 5,794,969	\$ 15,908,418	\$ 14,912,517
Receivables:						
Receivables from sales to customers on account	6,381,574	845,988	156,177	6,698,724	14,082,463	12,023,490
Due from other governments	9,575	18,200	-	6,698,136	6,725,911	2,286,659
Current portion of leases receivable	390,000	915,000	-	990,000	2,295,000	2,420,000
Prepaid expenses and other assets	162,467	23,773	3,077	807,939	997,256	1,129,502
Total current assets	14,272,608	3,966,001	780,671	20,989,768	40,009,048	32,772,168
Noncurrent assets:						
Restricted assets	3,663,829	477,376	-	4,570,558	8,711,763	60,586,023
Leases receivable - Net of current portion	980,000	905,000	-	34,788,572	36,673,572	40,305,400
Due from other governmental units	-	-	-	5,258,648	5,258,648	4,704,585
Local unit construction in progress	-	-	-	-	-	1,287,537
Capital assets - Net	200,074,829	25,993,881	375,491	195,301,550	421,745,751	374,922,609
Total noncurrent assets	204,718,658	27,376,257	375,491	239,919,328	472,389,734	481,806,154
Total assets	218,991,266	31,342,258	1,156,162	260,909,096	512,398,782	514,578,322
Deferred Outflows of Resources						
Bond refunding loss being amortized	236,053	6,918	-	9,680	252,651	19,281
Deferred outflows related to pensions	6,390,739	1,464,943	278,402	3,660,138	11,794,222	14,998,938
Total deferred outflows of resources	6,626,792	1,471,861	278,402	3,669,818	12,046,873	15,018,219
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	2,582,628	362,702	49,643	7,220,051	10,215,024	4,380,857
Current portion of long-term debt	2,943,270	915,000	-	3,900,000	7,758,270	11,155,032
Total current liabilities	5,525,898	1,277,702	49,643	11,120,051	17,973,294	15,535,889
Noncurrent liabilities:						
Payable from restricted assets	3,663,829	401,465	-	1,677,202	5,742,496	14,600,588
Unearned leases	-	-	-	-	-	1,276,135
Net pension liability	14,934,119	3,422,804	650,388	8,551,499	27,558,810	32,181,562
Net OPEB obligation	3,174,086	498,921	84,158	1,390,688	5,147,853	5,147,853
Long-term debt - Net of current portion	60,238,619	5,190,000	-	198,444,235	263,872,854	264,716,346
Total noncurrent liabilities	82,010,653	9,513,190	734,546	210,063,624	302,322,013	317,922,484
Total liabilities	87,536,551	10,790,892	784,189	221,183,675	320,295,307	333,458,373
Deferred Inflows of Resources - Deferred inflows related to pensions						
	2,667,175	611,527	116,238	1,527,969	4,922,909	1,125,058
Net Position						
Net investment in capital assets	138,498,993	21,715,799	375,491	32,286,669	192,876,952	183,479,251
Restricted - Debt service	-	75,911	-	-	75,911	5,494,572
Unrestricted	(3,084,661)	(380,010)	158,646	9,580,601	6,274,576	6,039,287
Total net position	\$ 135,414,332	\$ 21,411,700	\$ 534,137	\$ 41,867,270	\$ 199,227,439	\$ 195,013,110

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Enterprise Fund Divisional Detail

**Year Ended December 31, 2017
(with comparative totals for 2016)**

	2017				Total	2016
	Interceptor and Treatment Facilities	Sewage Disposal District No. 3	Sewage Disposal District No. 7	Water Supply Systems		
Operating Revenue						
Sale of water	\$ -	\$ -	\$ -	\$ 37,325,292	\$ 37,325,292	\$ 35,156,014
Sewage disposal charges	25,698,724	4,688,334	935,227	-	31,322,285	31,184,690
Billing services	142,325	-	-	-	142,325	139,269
Water meter sales	-	-	-	140,115	140,115	156,290
Sewer and pumping station - Operation and maintenance	1,295,379	-	-	-	1,295,379	1,320,630
Other operating revenue	599,160	252,858	10,421	885,223	1,747,662	2,246,864
Total operating revenue	27,735,588	4,941,192	945,648	38,350,630	71,973,058	70,203,757
Operating Expenses						
Cost of water	-	-	-	26,059,047	26,059,047	22,155,625
Sludge disposal service	809,946	374,958	-	-	1,184,904	982,834
Cost of insurance claims and expenses	296,440	54,200	9,203	346,024	705,867	394,749
Repairs and maintenance	2,787,432	1,401,000	300,921	537,353	5,026,706	2,877,330
Other supplies and expenses	1,070,616	71,249	28,718	851,867	2,022,450	1,392,014
Contractual services	671,829	137,909	16,992	669,549	1,496,279	1,723,498
Utilities	2,627,762	409,045	185,263	635,739	3,857,809	3,305,969
Personnel services	10,661,376	2,520,260	457,343	7,046,813	20,685,792	18,758,980
Depreciation	5,507,128	853,709	28,700	1,953,866	8,343,403	8,455,617
Total operating expenses	24,432,529	5,822,330	1,027,140	38,100,258	69,382,257	60,046,616
Operating Income (Loss)	3,303,059	(881,138)	(81,492)	250,372	2,590,801	10,157,141
Nonoperating Revenue (Expense)						
Investment income - Net	4,514	1,126	244	9,671	15,555	13,041
Community bond interest income	93,130	84,408	-	1,698,174	1,875,712	1,997,301
Community bond interest expense	(93,130)	(84,408)	-	(1,698,174)	(1,875,712)	(1,997,301)
Miscellaneous income	526,000	-	-	615,612	1,141,612	1,315,756
Interest and fiscal charges	(1,914,065)	(223,438)	-	(1,383,162)	(3,520,665)	(4,099,556)
Total nonoperating (expense) revenue	(1,383,551)	(222,312)	244	(757,879)	(2,363,498)	(2,770,759)
Income (Loss) - Before capital contributions	1,919,508	(1,103,450)	(81,248)	(507,507)	227,303	7,386,382
Capital Contributions	-	-	-	7,500,000	7,500,000	750,000
Transfers Out	-	-	-	-	-	(65,844)
Special Items - Sale of pipeline	-	-	-	(3,512,974)	(3,512,974)	-
Change in Net Position	1,919,508	(1,103,450)	(81,248)	3,479,519	4,214,329	8,070,538
Net Position - Beginning of year, as adjusted	133,494,824	22,515,150	615,385	38,387,751	195,013,110	186,942,572
Net Position - End of year	\$ 135,414,332	\$ 21,411,700	\$ 534,137	\$ 41,867,270	\$ 199,227,439	\$ 195,013,110

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information Combining Statement of Cash Flows Enterprise Fund Divisional Detail

Year Ended December 31, 2017
(with comparative totals for 2016)

	2017					2016
	Interceptor and Treatment Facilities	Sewage Disposal District No. 3	Sewage Disposal District No. 7	Water Supply Systems	Total	
Cash Flows from Operating Activities						
Receipts from customers	\$ 27,451,731	\$ 4,949,617	\$ 944,518	\$ 36,584,867	\$ 69,930,733	\$ 70,977,074
Payments to suppliers and others for goods and services	(7,585,089)	(2,350,312)	(519,779)	(29,275,792)	(39,730,972)	(33,804,073)
Payments for salaries and employee benefits	(9,777,115)	(2,122,332)	(397,303)	(5,809,430)	(18,106,180)	(16,308,243)
Net cash and cash equivalents provided by operating activities	10,089,527	476,973	27,436	1,499,645	12,093,581	20,864,758
Cash Flows from Capital and Related Financing Activities						
Proceeds from issuance of bonds	15,890,000	3,905,000	-	11,557,329	31,352,329	61,532,424
Retirement of refunded bonds	(15,455,000)	(3,840,000)	-	-	(19,295,000)	-
Collection of leases receivable from municipalities	1,815,000	1,010,000	-	945,000	3,770,000	2,545,000
Collection of interest from communities and C.U. (KWA)	105,831	94,425	-	1,704,431	1,904,687	339,053
Purchase of capital assets	(1,361,211)	(323,438)	(30,535)	(64,668,083)	(66,383,267)	(55,440,082)
Principal paid on bond maturities	(8,370,000)	(1,350,000)	-	(2,375,000)	(12,095,000)	(16,140,000)
Interest paid on bonds	(2,449,729)	(360,668)	-	(3,104,928)	(5,915,325)	(5,744,769)
Miscellaneous revenue	517,651	-	-	607,312	1,124,963	2,089,000
Premium proceeds on bonded debt and bond issuance costs	-	-	-	-	-	6,283,838
Transfers to other funds	-	-	-	-	-	(65,844)
Capital grant contribution	-	-	-	2,549,118	2,549,118	-
Net cash and cash equivalents used in capital and related financing activities	(9,307,458)	(864,681)	(30,535)	(52,784,821)	(62,987,495)	(4,601,380)
Cash Flows Provided by Investing Activities - Investment income	4,514	1,126	244	9,671	15,555	13,041
Net Increase (Decrease) in Cash and Cash Equivalents	786,583	(386,582)	(2,855)	(51,275,505)	(50,878,359)	16,276,419
Cash and Cash Equivalents - Beginning of year	10,206,238	3,026,998	624,272	61,641,032	75,498,540	59,222,121
Cash and Cash Equivalents - End of year	<u>\$ 10,992,821</u>	<u>\$ 2,640,416</u>	<u>\$ 621,417</u>	<u>\$ 10,365,527</u>	<u>\$ 24,620,181</u>	<u>\$ 75,498,540</u>
Classification of Cash and Cash Equivalents						
Cash and investments	\$ 7,328,992	\$ 2,163,040	\$ 621,417	\$ 5,794,969	\$ 15,908,418	\$ 14,677,682
Restricted cash	3,663,829	477,376	-	4,570,558	8,711,763	60,820,858
Total cash and cash equivalents	<u>\$ 10,992,821</u>	<u>\$ 2,640,416</u>	<u>\$ 621,417</u>	<u>\$ 10,365,527</u>	<u>\$ 24,620,181</u>	<u>\$ 75,498,540</u>

Genesee County Drain Commissioner Division of Water and Waste Services

**Other Supplemental Information
Combining Statement of Cash Flows (Continued)
Enterprise Fund Divisional Detail**

**December 31, 2017
(with comparative totals for 2016)**

	2017				Total	2016
	Interceptor and Treatment Facilities	Sewage Disposal District No. 3	Sewage Disposal District No. 7	Water Supply Systems		
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	\$ 3,303,059	\$ (881,138)	\$ (81,492)	\$ 250,372	\$ 2,590,801	\$ 10,157,141
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	5,507,128	853,709	28,700	1,953,866	8,343,403	8,455,617
Changes in assets and liabilities:						
Receivables	(283,858)	8,425	(1,130)	(1,765,763)	(2,042,326)	773,317
Prepaid and other assets	55,316	9,134	1,836	39,649	105,935	(129,220)
Accounts payable and accrued expense	623,621	88,915	19,482	(215,862)	516,156	(842,834)
OPEB liability	-	-	-	-	-	(15,063)
Accrued and other liabilities	50,500	19,970	(7,108)	136,435	199,797	168,036
Net pension liability	833,761	377,958	67,148	1,100,948	2,379,815	2,297,764
Total adjustments	<u>6,786,468</u>	<u>1,358,111</u>	<u>108,928</u>	<u>1,249,273</u>	<u>9,502,780</u>	<u>10,707,617</u>
Net cash and cash equivalents provided by operating activities	<u><u>\$ 10,089,527</u></u>	<u><u>\$ 476,973</u></u>	<u><u>\$ 27,436</u></u>	<u><u>\$ 1,499,645</u></u>	<u><u>\$ 12,093,581</u></u>	<u><u>\$ 20,864,758</u></u>

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information
Statement of Net Position
Internal Service Fund (Equipment Fund)

December 31, 2017
(with comparative totals for 2016)

	2017	2016
Assets		
Current assets - Cash and cash equivalents	\$ 135,563	\$ 313,156
Noncurrent assets - Capital assets - Assets subject to depreciation - Net of depreciation	1,574,479	1,761,655
Total assets	1,710,042	2,074,811
Liabilities - Accounts payable and accrued expenses	-	6,481
Net Position		
Net investment in capital assets	1,574,479	1,761,655
Unrestricted	135,563	306,675
Total net position	\$ 1,710,042	\$ 2,068,330

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information
Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Fund (Equipment Fund)

Year Ended December 31, 2017
(with comparative totals for 2016)

	2017	2016
Operating Expenses		
Supplies	\$ 72,816	\$ 43,610
Depreciation	285,472	374,734
Total operating expenses	358,288	418,344
Operating Loss	(358,288)	(418,344)
Nonoperating Revenue - Gain on sale of assets	-	10,100
Transfers In	-	65,844
Change in Net Position	(358,288)	(342,400)
Net Position - Beginning of year	2,068,330	2,410,730
Net Position - End of year	\$ 1,710,042	\$ 2,068,330

Genesee County Drain Commissioner Division of Water and Waste Services

Other Supplemental Information
Statement of Cash Flows
Internal Service Fund (Equipment Fund)

**Year Ended December 31, 2017
(with comparative totals for 2016)**

	2017	2016
Cash Flows Used in Operating Activities - Payments to suppliers and others for goods and services	\$ (79,297)	\$ (39,096)
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	-	10,100
Purchase of capital assets	(98,296)	(154,808)
Operating transfer	-	65,844
Net cash and cash equivalents used in capital and related financing activities	(98,296)	(78,864)
Net Decrease in Cash and Cash Equivalents	(177,593)	(117,960)
Cash and Cash Equivalents - Beginning of year	313,156	431,116
Cash and Cash Equivalents - End of year	\$ 135,563	\$ 313,156
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (358,288)	\$ (418,344)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	285,472	374,734
Changes in assets and liabilities - Accounts payable	(6,481)	4,514
Total adjustments	278,991	379,248
Net cash and cash equivalents used in operating activities	\$ (79,297)	\$ (39,096)

Genesee County Drain Commissioner

Division of Water and Waste Services

Description of Issue	Principal	Issued During the	Retired During	Principal	2018		2019		
	Outstanding			Year	the Year	Outstanding	Principal	Interest	Principal
	January 1, 2017			December 31, 2017					
Interceptor and Treatment Facilities									
Genesee County Drain Commissioner Bonds Payable:									
Series 2003 \$9,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Western Trunk Relief project. Due serially in various amounts ranging from \$350,000 to \$2,350,000 through 2018 with interest rates from 2.00% to 4.50%	1,095,000	-	(535,000)	560,000	560,000	25,200.00			
Series 2005A \$22,180,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Northeast Extension Sewer project. Fully drawn May 2007. Due in amounts ranging from \$950,000 to \$1,285,000 through 2026 with an interest rate of 1625%	11,975,000	-	(1,115,000)	10,860,000	1,130,000	176,475.00	1,150,000	158,113.00	
Series 2005B \$15,505,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee for Division project. Fully drawn May 2007. Due in amounts ranging from \$660,000 to \$900,000 through 2026 with an interest rate of 1625%	8,380,000	-	(780,000)	7,600,000	790,000	117,081.00	805,000	104,122.00	
Series 2006A \$2,815,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn October 2007. Due in amounts ranging from \$120,000 to \$165,000 through 2027 with an interest rate of 1625%	1,665,000	-	(140,000)	1,525,000	140,000	24,781.00	145,000	22,506.00	
Series 2006B \$7,705,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn July 2008. Due in amounts ranging from \$330,000 to \$445,000 through 2027 with an interest rate of 1625%	4,540,000	-	(380,000)	4,160,000	385,000	67,600.00	395,000	61,344.00	
Series 2006C \$4,335,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn January 2008. Due in amounts ranging from \$185,000 to \$250,000 through 2027 with an interest rate of 1625%	2,555,000	-	(215,000)	2,340,000	215,000	38,025.00	220,000	34,531.00	
Series 2007 \$10,500,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Fully drawn in December 2010. Due in amounts ranging from \$450,000 to \$610,000 through 2028 with an interest rate of 1625%	6,700,000	-	(510,000)	6,190,000	520,000	96,363.00	525,000	87,872.00	

Genesee County Drain Commissioner Division of Water and Waste Services

Summary of Bonds Payable Year Ended December 31, 2017

2020		2021		2022		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
						-	-	560,000	25,200.00
1,170,000	139,425.00	1,185,000	120,413.00	1,205,000	101,156.00	5,020,000	205,563.00	10,860,000	901,145.00
815,000	90,959.00	830,000	77,594.00	845,000	63,984.00	3,515,000	115,335.00	7,600,000	569,075.00
145,000	20,150.00	150,000	17,794.00	150,000	15,356.00	795,000	39,162.00	1,525,000	139,749.00
400,000	54,925.00	405,000	48,425.00	410,000	41,844.00	2,165,000	106,599.00	4,160,000	380,737.00
225,000	30,956.00	230,000	27,300.00	230,000	23,563.00	1,220,000	60,125.00	2,340,000	214,500.00
535,000	79,259.00	545,000	70,484.00	555,000	61,547.00	3,510,000	173,957	6,190,000	569,482

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal	Issued During the Year	Retired During the Year	Principal	2018		2019	
	Outstanding			Outstanding	Principal	Interest	Principal	Interest
	January 1, 2017			December 31, 2017				
Interceptor and Treatment Facilities								
Genesee County Drain Commissioner Bonds								
Payable:								
Series 2007B \$8,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Due serially and term amounts ranging from \$240,000 to \$605,000 through 2028 with interest rates from 4.00% to 4.40%	5,690,000	-	(5,690,000)	-				
Series 2009A \$15,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Division Northeast Extension Sewer project. Due serially and term amounts ranging from \$475,000 to \$1,150,000 through 2029 with interest rates from 2.75% to 5.00%	11,425,000	-	(1,750,000)	675,000	675,000	27,843.76		
Series 2010A \$14,010,023 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Pump Station #1, ARTP Blower Revamp, and ARTP Clarifiers. Fully drawn May 2013. Due in amounts ranging from \$569,000 to \$861,023 through 2030 with an interest rate of 2.50%	10,456,023	-	(645,000)	9,811,023	645,000	245,276.00	675,000	229,151.00
Series 2011A \$1,445,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for ARTP Switchgears. Fully drawn in October 2012. Due in amounts ranging from \$55,000 to \$90,000 through 2031 with an interest rate of 2.50%	1,150,000	-	(65,000)	1,085,000	65,000	27,125.00	65,000	25,500.00
Series 2011B \$4,825,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for NEES 3E. Due serially and term in amounts ranging from \$130,000 to \$405,000 through 2031 with interest rates from 3.00% to 5.00%	4,645,000	-	(185,000)	4,460,000	250,000	186,800.00	260,000	178,988.00
Refunding Series 2011C \$7,870,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Refunded Series 2000, \$6,000,000 ARTP Grit Removal bond and Series 2002A, \$1,870,000 ARTP Enhancement bond. Due in amounts ranging from \$1,000,000 to \$1,500,000 through 2017 with interest rates from 2.00% to 2.25%	1,000,000	-	(1,000,000)	-				
Refunding Series 2017 \$15,890,000 Revenue Bonds backed by the full faith and credit of the County of Genesee Limited Tax General Obligation. Refunded 2007B, \$8,000,000 and 2009A, \$15,000,000 for the Northeast Extension Sewer Project bonds. Due in amounts ranging from \$545,000 to \$1,575,000 through 2029 with an interest rate of 2.09%		15,890,000		15,890,000	545,000	333,023.50	1,260,000	320,710.50
Total Genesee County Drain Commission bonds payable	71,276,023	15,890,000	(22,010,000)	65,156,023	5,920,000	1,365,593.26	5,500,000	1,222,837.50

Summary of Bonds Payable (Continued)
Year Ended December 31, 2017

2020		2021		2022		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
						-	-	-	-
						-	-	675,000	27,843.76
675,000	212,276.00	710,000	165,401.00	710,000	177,651.00	6,396,023	737,958.00	9,811,023	1,797,713.00
70,000	23,875.00	70,000	22,125.00	75,000	20,375.00	740,000	95,500.00	1,085,000	214,500.00
270,000	169,525.00	270,000	158,725.00	290,000	147,525.00	3,120,000	709,257.00	4,460,000	1,550,820.00
						-	-	-	-
1,310,000	294,376.50	1,360,000	266,997.50	1,380,000	238,573.50	10,035,000	820,848	15,890,000	2,274,529.00
<u>5,615,000</u>	<u>1,115,726.50</u>	<u>5,755,000</u>	<u>1,005,258.50</u>	<u>5,850,000.00</u>	<u>891,574.50</u>	<u>36,516,023</u>	<u>3,064,303.50</u>	<u>65,156,023</u>	<u>8,665,293.76</u>

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal Outstanding January 1, 2017	Issued During the Year	Retired During the Year	Principal Outstanding December 31, 2017	2018		2019	
					Principal	Interest	Principal	Interest
Interceptor and Treatment Facilities								
Community-related Bonds Payable:								
Refunding Series 2005 \$2,900,000 County of Genesee Limited Tax General Obligation Bonds. Refunded Series 1999, \$3,800,000 Bonds for Mt. Morris Township Sanitary Sewer System project. Due serially in amounts ranging from \$15,000 to \$315,000 through 2019 with interest rates from 4.00% to 4.25%	900,000	-	(285,000)	615,000	300,000	9,688.00	315,000	6,694.00
Series 2006 \$3,665,000 County of Genesee Limited Tax General Obligation Bonds for Community Western Trunk Extension Sewer Phase II project. Due serially in amounts ranging from \$10,000 to \$285,000 through 2026 with interest rates from 4.00% to 4.35%. Partial defeasance May 2017	2,285,000	-	(153,000)	755,000	90,000	29,665.00	95,000	25,965.00
Total Community-related bonds payable	3,185,000	-	(1815,000)	1,370,000	390,000	49,353.00	410,000	32,659.00
Total Interceptor and Treatment Facilities bonds payable	\$ 74,461,023	\$ 15,890,000	\$ (23,825,000)	\$ 66,526,023	\$ 6,310,000	\$ 1,414,946.26	\$ 5,910,000	\$ 1,255,496.50
District No. 3								
Genesee County Drain Commissioner Bonds Payable:								
Series 2007 \$6,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Treatment Plant Improvement project. Due serially in various amounts ranging from \$195,000 to \$470,000 through 2027 with interest rates from 4.00% to 4.50%	\$ 4,130,000	\$ -	\$ (4,130,000)	\$ -				
Series 2010A \$1,089,000 State Revolving Fund Program Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for District #3 Digester Phase I. Fully drawn in September 2011. Due in amounts ranging from \$44,000 to \$70,000 through 2030 with an interest rate of 2.50%	\$ 815,000	\$ -	\$ (50,000)	\$ 765,000	50,000	9,125.00	50,000	17,875.00
Refunding Series 2017 \$3,905,000 Revenue Bonds backed by the full faith and credit of the County of Genesee Limited Tax General Obligation. Refunded 2007 for the Treatment Plant Improvement project. Due in amounts ranging from \$335,000 to \$435,000 through 2027 with an interest rate of 2.44%		\$ 3,905,000		\$ 3,905,000	335,000	73,250.71	355,000	72,599.50
Total Genesee County Drain Commission bonds payable	4,945,000	3,905,000	(4,180,000)	4,670,000	385,000	92,375.71	405,000	90,474.50
Community-related Bonds Payable:								
Series 1996 \$1,240,000 County of Genesee Limited Tax General Obligation Bonds for Fenton Township Rolston and Ripley Road Arms project. Due serially in amounts ranging from \$25,000 to \$100,000 through 2017 with interest rates from 5.00% to 7.375%	100,000	-	(100,000)	-				
Refunding Series 2007 \$5,615,000 County of Genesee Limited Tax General Obligation Bonds. Partially refunded Series 1998, \$7,440,000 Bonds for City of Fenton, Fenton Township, and City of Linden Sewage Disposal System project. Due serially in amounts ranging from \$20,000 to \$915,000 through 2019 with an interest rate of 4.00%	2,730,000	-	(910,000)	1,820,000	915,000	54,500.00	905,000	18,100.00
Total Community-related bonds payable	2,830,000	-	(1,010,000)	1,820,000	915,000	54,500.00	905,000	18,100.00
Total District No. 3 bonds payable	\$ 7,775,000	\$ 3,905,000	\$ (5,190,000)	\$ 6,490,000	\$ 1,300,000	\$ 146,875.71	\$ 1,310,000	\$ 108,574.50

Summary of Bonds Payable (Continued)
Year Ended December 31, 2017

2020		2021		2022		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
						-	-	615,000	26,382.00
100,000	22,015.00	100,000	17,890.00	105,000	13,583.75	265,000	13,446.25	755,000	122,565.00
100,000	22,015.00	100,000	17,890.00	105,000	13,583.75	265,000	13,446.25	1,370,000	148,947.00
<u>\$ 5,715,000</u>	<u>\$ 1,137,742</u>	<u>\$ 5,855,000</u>	<u>\$ 1,023,148.50</u>	<u>\$ 5,955,000</u>	<u>\$ 905,158.25</u>	<u>\$ 36,781,023</u>	<u>\$ 3,077,749.75</u>	<u>\$ 66,526,023</u>	<u>\$ 8,814,240.76</u>
						\$ -	-	\$ -	-
55,000	16,625.00	55,000	15,250.00	55,000	13,875.00	\$ 500,000	58,125.00	\$ 765,000	140,875.00
360,000	64,949.00	375,000	57,084.50	385,000	48,952.50	\$ 2,095,000	114,222.50	\$ 3,905,000	431,058.71
415,000	81,574.00	430,000	72,334.50	440,000	62,827.50	2,595,000	172,347.50	4,670,000	571,933.71
						-	-	-	0.00
						-	-	1,820,000	72,600.00
-	-	-	-	-	-	-	-	1,820,000	72,600.00
<u>\$ 415,000</u>	<u>\$ 81,574.00</u>	<u>\$ 430,000</u>	<u>\$ 72,334.50</u>	<u>\$ 440,000</u>	<u>\$ 62,827.50</u>	<u>\$ 2,595,000</u>	<u>\$ 172,347.50</u>	<u>\$ 6,490,000</u>	<u>\$ 644,533.71</u>

Genesee County Drain Commissioner Division of Water and Waste Services

Description of Issue	Principal	Issued During the Year	Retired During the Year	Principal	2018		2019	
	Outstanding January 1, 2017			Outstanding December 31, 2017	Principal	Interest	Principal	Interest
Water Supply Systems								
Genesee County Drain Commissioner Bonds Payable:								
Series 2013 \$35,000,000 Revenue Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Lake Huron Initiative project. Due serially and term in various amounts ranging from \$670,000 to \$2,400,000 through 2038 with interest rates from 2.00% to 5.375%	32,675,000	-	(865,000)	31810,000	900,000.00	1627,587.50	935,000.00	1591,587.50
Series 2014 \$30,285,000 Revenue Refunding Bonds backed by the full faith and credit of the County of Genesee. Due serially in various amounts ranging from \$1210,000 to \$2,130,000 through 2034 with interest rates from 3.00% to 5.00%	27,825,000	-	(1285,000)	26,540,000	1,345,000.00	1,165,087.50	1,410,000.00	1,111,287.50
Series 2015 \$60,000,000 Revenue Bonds backed by the County of Genesee Limited Tax General Obligation. Bond proceeds used for water treatment plant. Due serially in amounts ranging from \$605,000 to \$2,490,000 through 2035 with interest rates from 5.00% to 3.625% and in term amounts of \$15,880,000 and \$22,320,000 with interest of 5.25% and 4.00% in 2040 and 2045 respectively	60,000,000	-	-	60,000,000	605,000.00	2,653,693.76	625,000.00	2,622,943.76
Series 2016A \$5,680,000 Drinking Water Revolving Fund Revenue Bonds backed by the County of Genesee Limited Tax General Obligation. Bond proceeds used for water meter upgrade project. Due in amounts ranging from \$250,000 to \$405,000 through 2038 with an interest rate of 2.50%	3,664,561	115,565	-	4,780,126	-	13,624.24	185,000.00	17,190.66
Series 2016B \$56,895,000 Revenue and Revenue Refunding Bonds backed by the County of Genesee Limited Tax General Obligation. Bond proceeds used for water treatment plant and refunding Series 2007. Due serially in amounts ranging from \$45,000 to \$2,425,000 through 2036 with interest rates from 5.00% to 3.125% and in term amounts of \$4,825,000 and \$9,515,000 with interest of 4.00% and 5.00% in 2041 and 2046 respectively	56,895,000	-	(145,000)	56,750,000	600,000.00	2,545,281.26	600,000.00	2,515,281.26
Series 2017A \$10,500,000 Revenue Bonds backed by the County of Genesee Limited Tax General Obligation. Bond proceeds used for water transmission main from Henderson Road to Genesee Road (Potter Road Southeast Loop Extension). Due serially in amounts ranging from \$360,000 to \$695,000 through 2037 with interest rates from .90% to 3.65%		10,500,000	-	10,500,000	360,000.00	343,440.00	430,000.00	281,837.50
Total Genesee County Drain Commission bonds payable	105,951	116,565	(2,295,000)	190,380,126	3,810,000	8,448,714.26	4,185,000.00	8,240,128.18
Community-related Bonds Payable:								
Series 2011 \$933,515 Drinking Water Revolving Fund Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Fenton Road Watermain - Bristol to Maple. Fully drawn in July 2012. Due in amounts ranging from \$34,250 to \$59,265 through 2031 with an interest rate of 2.50%	739,265	-	(40,000)	699,265	45,000.00	16,919.00	45,000.00	15,794.00
Series 2015 \$1,050,000 Drinking Water Revolving Fund Bonds backed by the full faith and credit of the County of Genesee. Bond proceeds used for Dalton Subdivision Watermain Replacement. Will be fully drawn in 2017. Due serially in amounts ranging from \$50,000 to \$80,000 through 2035 with an interest rate of 2.50%	971,135	13,172	(40,000)	944,307	45,000.00	23,443.03	45,000.00	22,482.68
Total Community-related bonds payable	1,710,400	13,172	(80,000)	1,643,572	90,000	40,362.03	90,000	38,276.68
Total Water Supply Systems bonds payable	\$ 182,769,961	\$ 11,628,737	\$ (2,375,000)	\$ 192,023,698	\$ 3,900,000	\$ 8,489,076.29	\$ 4,275,000	\$ 8,278,404.86
Total Genesee County Drain Commission bonds payable	\$ 257,280,584	\$ 314,105,65	\$ (28,485,000)	\$ 260,206,149	\$ 10,115,000	9,906,683.23	10,090,000	9,553,440.18
Total Community-related bonds payable	7,725,400	13,172	(2,905,000)	4,833,572	1,395,000	144,215.03	1405,000	89,035.68
Total - All bonds payable	\$ 265,005,984	\$ 314,237,37	\$ (31,390,000)	\$ 265,039,721	\$ 11,510,000	\$ 10,050,898.26	\$ 11,495,000	\$ 9,642,475.86

Summary of Bonds Payable (Continued) Year Ended December 31, 2017

2020		2021		2022		Later		Total	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
975,000	1,554,187.50	1,020,000	1,505,437.50	1,075,000	1,454,437.50	26,905,000	13,530,181.28	31,810,000	21,263,418.78
1,475,000	1,040,787.50	1,560,000	967,037.50	1,640,000	889,037.50	19,110,000	4,338,956.26	26,540,000	9,512,193.76
670,000	2,590,568.76	705,000	2,556,193.76	740,000	2,520,068.76	56,655,000	36,584,453.22	60,000,000	49,527,922.02
190,000.00	12,503.16	195,000.00	17,690.66	200,000.00	12,753.16	4,010,126	854,798.98	4,780,126	1,408,560.86
620,000.00	2,484,781.26	640,000.00	2,453,281.26	670,000.00	2,420,531.26	53,620,000	37,652,090.75	56,750,000	50,071,247.05
435,000.00	276,428.75	440,000.00	270,082.50	445,000.00	262,667.50	8,390,000	2,259,818.75	10,500,000	3,694,275.00
4,365,000.00	8,059,256.93	4,560,000.00	7,859,723.18	4,770,000	7,649,495.68	168,690,126	95,220,299.24	190,380,126	135,477,617.47
45,000	11,669.00	45,000	13,544.00	45,000	12,419.00	474,265	55,033.00	699,265	128,378.00
45,000	21,357.68	45,000	20,232.68	45,000	19,107.68	719,307	131,899.84	944,307	238,523.59
90,000	36,026.68	90,000	33,776.68	90,000	31,526.68	1,193,572	186,932.84	1,643,572	366,901.59
\$ 4,455,000	\$ 8,095,283.61	\$ 4,650,000	\$ 7,893,499.86	\$ 4,860,000	\$ 7,681,022.36	\$ 169,883,698	\$ 95,407,232.08	\$ 192,023,698	\$ 135,844,519.06
10,395,000	9,256,557.43	10,745,000	8,937,316.18	11,060,000	8,603,897.68	207,801,149	98,456,950.24	260,206,149	144,714,844.94
190,000	58,041.68	190,000	51,666.68	195,000	45,110.43	1,458,572	200,379.09	4,833,572	588,448.59
\$ 10,585,000	\$ 9,314,599.11	\$ 10,935,000	\$ 8,988,982.86	\$ 11,255,000	\$ 8,649,008.11	\$ 209,259,721	\$ 98,657,329.33	\$ 265,039,721	\$ 145,303,293.53

June 13, 2018

To Mr. Jeff Wright, Commissioner
Genesee County Drain Commissioner
Division of Water and Waste Services

We have audited the financial statements of Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of and for the year ended December 31, 2017 and have issued our report thereon dated June 13, 2018. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to Genesee County Drain Commissioner Division of Water and Waste Services.

Section II contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the Division's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the commissioner and management of Genesee County Drain Commissioner Division of Water and Waste Services and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



William Brickey

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 15, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Genesee County Drain Commissioner Division of Water and Waste Services. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 15, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Division are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2017.

We noted no transactions entered into by the Division during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the recording of unbilled revenue, the postemployment benefit liability calculation, the pension liability calculation and disclosures, and the calculation of the self-insurance (IBNR) liability.

Management's estimate of the unbilled revenue is based on amounts billed subsequent to year end. We evaluated the key factors and assumptions used to develop the unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Section I - Required Communications with Those Charged with Governance (Continued)

Management's estimate of the postemployment benefit liability, defined benefit pension costs, and net pension liability is based on certain assumptions made by the actuary. We evaluated the key factors and assumptions used to calculate the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the self-insurance liability is based on the quarterly billings received from BCBS. We evaluated the key factors and assumptions used to calculate the receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Division, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Division's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 13, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Division's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Other Recommendations and Related Information

Upcoming Change in Accounting for Retiree Healthcare Obligations

Relative to retiree health care, there is another rule change (GASB Statement No. 75) that will take effect for the year ending December 31, 2018. Like the pension rule, this will require the Division to measure its OPEB costs for the government-wide statements and in the proprietary funds as the employees are providing employment services, rather than as it is funded. The amount of this liability has not been measured since December 31, 2017. However, our estimate is that the net OPEB liability is likely to be in the range of \$30-\$40 million in total. While this is not a current claim on present resources, we are confident that this will cause budgetary pressure several years into the future and should be worked into long-term future spending plans.